

# H&R BLOCK **tax**talks .....

## Small Business Tax Issues



# Presenter: Julie Herman-Wiese

- Business Development Manager H&R Block and Fill in tax preparer

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- Prior to H&R Block:
  - Ran my own consulting firm: 2009 - 2015 helping small businesses
  - Bookkeeper

# Tax Professional: Raymond Davidov

- 3 Years with H&R Block as Tax Professional.  
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Locations
- Prior to H&R Block:
  - Business consultant
  - Manager of the Small Business Institute  
for UW.

# Presentation Topics

- Starting a Business
- Business Entity
- Record keeping
- Travel
- Auto
- Estimated taxes
- Payroll
- 1099 – MISC
- Affordable Care Act
- Assets
- Losses
- Home Office
- Areas that gets IRS attention



# Starting a Business

- Choice of tax year
  - Calendar year (January 1 – December 31)
  - Fiscal year (begins on first day of selected month; ends on last day of 11<sup>th</sup> following month).
- Start up Expenses
  - Research, consultants, attorney fees, setting up website..etc.
    - Capitalizing
- Accounting method
  - Cash
  - Accrual, records income as it is earned and expenses as incurred, regardless of when received or paid.
  - Hybrid, a combination of cash and accrual. Often using accrual for income and inventory and cash for everything else.

**\*Tax preparers need to know this information**

# Entity choice

- Entities:
  - Sole proprietorship
  - LLC – Single member or multiple members
  - Partnership
  - Corporation
  - S corporation
  - C corporation
- Tax preparers need to know this information in order to file your return properly
- Consult with an attorney

\*See the handout we provided for more information

# Payroll Taxes

- Employers must report wages, tips and other compensation paid to an employee by filing the required form(s) to the IRS.
- Taxes withheld for federal income tax or social security and Medicare = Form 941
- FUTA (unemployment taxes) – Form 940
- High penalties for failure to pay employment taxes**
- Calculating payroll is not easy. Can cause all kinds of issues internally and externally.
- Your handout has some steps for calculation  
I **strongly** recommend using a company like ADP, Zen Payroll, Gusto... etc. doing this for you and they will send in the other forms on your behalf to IRS

# Hiring employees

- Apply for an EIN, Employer Identification Number
  - I-9 Employment Eligibility Verification, for each employee (SS card, passport & drivers license)
  - Employees fill out W4 Employee's Withholding Allowance Certificate
    - End of the year you give them a W2
  - Contractors fill out a W9
    - 1099 – MISC at the end of the year
  - If you have employees in other states, you must also comply with the income tax laws in those states too
- \*Tax preparers need to know who were W2 and 1099



# Form 1099 - MISC

- Any **individual or business** that you contract with for over \$600 per year
- **The individual cannot be an employee**
  - S and C Corps don't need one typically **but if they are a small business, send one to be safe.**
  - You will always send them to:
    - Healthcare Provider
    - Fish purchases for cash
    - Attorney fees
    - Gross proceeds to attorney for legal settlements

Ex. You hire a consulting firm that is 2 people but they are registered as an LLC – you would still send one

- One copy to IRS and one to individual or business
- Must get a W9 from individual or business for their tax payer id. Some Sole Proprietors will use their social.
- Employee reimbursement and bonuses DO NOT go on a 1099- MISC
- You are required to get the 1099- MISC to contractors by January 31<sup>st</sup> and to the IRS February 28<sup>th</sup>

# Affordable Care Act

- Less than 25 full-time employees may be eligible for a Small Business Health Care Tax Credit to help cover the cost of providing coverage.
  - 50 or less employees may be eligible to buy coverage through the Small Business Health Options Program (SHOP).
  - 50 or more full-time equivalent employees will need to file an annual information return reporting whether and what health insurance they offered employees. In addition, they are subject to the
  - Employer Shared Responsibility provisions.
  - Regardless of size, all employers that provide self-insured health coverage to their employees **must file an annual return reporting** certain information for each employee they cover.
- \*Additional Information and links on your handout

# Record Keeping for Taxes

## - Keep detailed records

- Scan receipts and keep them electronically filed online (Dropbox or upload the image to QuickBooks)
- **Write notes on receipts** – put notes into QuickBooks in the memo section-
- Keep a mileage log
  - Starting point, Destination, Miles there (or odometer reading), and purpose of the meeting
- Hire a bookkeeper
- Don't use business credit cards for personal expenses or the reverse – **Keep business and personal separate**
- Make sure business expenses are in the business name
  - Cell phone, Faxing Service, UPS shipping service...etc.

# Business Travel



**Keep Receipts** – Meals, lodging, transportation (airline, taxi, train), laundry..etc.

- Credit Card charges aren't enough without explanation
- Ex: Seminar and then Disneyland after with family – Write off seminar but not family related travel expenses
- Ex: Lunch with a client – document who client was, what was discussed, business purpose
- Just talking to someone on vacation and exchanging business cards, does not make that vacation business travel

# Auto Deduction



- Expenses vs. Standard mileage rate:
  - Standard mileage = .55 per mile (2014)
  - You must have a mileage log
  - **You must have the beginning miles and ending miles for the year**
- Expenses:
  - Gas, auto repair, insurance, maintenance, cleaning, tire...etc

## Buying/ Leasing a car for business:

- If a vehicle is used exclusively for business purposes, you may generally deduct the full cost of operating the vehicle
- If you use a vehicle for business on a part-time basis, you will have to allocate your expenses based on your business and personal use.

# Estimated Taxes and Back Taxes

- ***What are Estimated Taxes?***
  - Start = After your first year of business
  - Based = On prior years taxes paid
  - When to file = Quarterly
  - Why = IRS wants businesses to pay as they go. Just like your withholding on your personal paychecks
- **B&O Taxes (Business and Occupation):**
  - State B&O tax is a gross receipts tax. It is measured on the value of products, gross proceeds of sale, or gross income of the business.
  - Calculated on the **gross** income from activities. This means there are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business.



# Business Assets

Assets = Building, machinery, computers, software, (anything that has value that you paid for)

- **The way to write off assets:**

- Take a deduction in the year of purchase
- Depreciation of the asset

- **Time your purchase of assets to offset profits**

Financed assets – write off interest each year

- **Assets for Personal use ( Listed Property ):**

- Computer (60% Business/ 40% personal)
- Car
- Document the % of use

# Net Operating Losses

- A *net operating loss* occurs when business expenses exceed business income.
- Wages are included in business income when calculating an NOL.
- Ordinarily, a business with an NOL may carry the loss back only two years.
- There are exceptions for farm losses and certain other circumstances.

**Important:** A business still has the option of NOT carrying a loss back at all.

- If a loss is not carried back, or a loss remains after applying the carryback provisions, it is carried forward up to 20 years.
- You must elect to waive the carryback period by the extension due date of your tax return.



# Home Office Expenses

## 2 Methods to account for home office:

Regular and Simplified(Safe Harbor)

- Regular = Intensive record keeping but higher deduction possible (keep all receipts!)
- Simplified = Simple calculation based on square footage x \$5 (Max of 300 Sq. ft)
  - Used exclusively for business (not a kids playroom or guestroom)
- IRS does look at it but not a trigger for an audit like it use to be

# Potential Tax Audit Triggers

- Higher than average income
- Out of proportion deductions
- Rounding numbers
  - Ex: \$60,002 rounded down to \$60,000
- Home office deductions- Unreasonable or high
- Claiming business losses year after year
- Filing a schedule C
- Excessive deductions for business entertainment
- Claiming vehicle as 100% business use

# Schedule C – Part 1 Income

## SCHEDULE C (Form 1040)

Department of the Treasury  
Internal Revenue Service (99)

## Profit or Loss From Business (Sole Proprietorship)

► Information about Schedule C and its separate instructions is at [www.irs.gov/schedulec](http://www.irs.gov/schedulec).  
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

**2014**

Attachment  
Sequence No. 09

Name of proprietor

Social security number (SSN)

**A** Principal business or profession, including product or service (see instructions)

**B** Enter code from instructions

**C** Business name. If no separate business name, leave blank.

**D** Employer ID number (EIN), (see instr.)

**E** Business address (including suite or room no.) ►  
City, town or post office, state, and ZIP code

**F** Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►

**G** Did you "materially participate" in the operation of this business during 2014? If "No," see instructions for limit on losses . ☐ Yes ☐ No

**H** If you started or acquired this business during 2014, check here . . . . . ☐

**I** Did you make any payments in 2014 that would require you to file Form(s) 1099? (see instructions) . . . . . ☐ Yes ☐ No

**J** If "Yes," did you or will you file required Forms 1099? . . . . . ☐ Yes ☐ No

### Part I Income

<b>1</b>	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . . . <input type="checkbox"/>	<b>1</b>		
<b>2</b>	Returns and allowances . . . . .	<b>2</b>		
<b>3</b>	Subtract line 2 from line 1 . . . . .	<b>3</b>		
<b>4</b>	Cost of goods sold (from line 42) . . . . .	<b>4</b>		
<b>5</b>	<b>Gross profit.</b> Subtract line 4 from line 3 . . . . .	<b>5</b>		
<b>6</b>	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions) . . . . .	<b>6</b>		
<b>7</b>	<b>Gross income.</b> Add lines 5 and 6 . . . . . <input type="checkbox"/>	<b>7</b>		

**Part II Expenses.** Enter expenses for business use of your home on line 60.

# Schedule C – Part 2 Expenses

## Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising . . . . .	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions). . . . .	9		19	Pension and profit-sharing plans . . . . .	19	
10	Commissions and fees . . . . .	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion . . . . .	12		b	Other business property . . . . .	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions). . . . .	13		21	Repairs and maintenance . . . . .	21	
14	Employee benefit programs (other than on line 19) . . . . .	14		22	Supplies (not included in Part III) . . . . .	22	
15	Insurance (other than health)	15		23	Taxes and licenses . . . . .	23	
16	Interest:			24	Travel, meals, and entertainment:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel . . . . .	24a	
b	Other . . . . .	16b		b	Deductible meals and entertainment (see instructions) . . . . .	24b	
17	Legal and professional services	17		25	Utilities . . . . .	25	
				26	Wages (less employment credits) . . . . .	26	
				27a	Other expenses (from line 48) . . . . .	27a	
				b	Reserved for future use . . . . .	27b	



Let's take questions!!